COCHRANE-DUNLOP LIMITED

ANNUAL REPORT 1975

COCHRANE-DUNLOP LIMITED

and subsidiary companies

HIGHLIGHTS

	1975	1974
Sales	$62,882,800	*$58,025,132*
Net income	$ 1,233,654	*$ 1,195,001*
Net income per share	$1.35	*$1.38*
Total assets	$22,835,012	*$21,734,519*
Working capital	$ 9,823,261	*$ 9,115,418*
Shareholders' equity		
—total	$12,795,262	*$11,955,903*
—per share	$13.81	*$12.90*

REPORT OF THE DIRECTORS TO THE SHAREHOLDERS

The annual report of Cochrane-Dunlop Limited, including the financial statements of the Corporation and its subsidiaries for the year ended December 31, 1975, together with the report of the auditors thereon, is submitted on behalf of your Board of Directors.

The economic environment within which Cochrane-Dunlop operated was subject to several significant trends in 1975.

—First, while prices at the consumer level continued to reflect inflationary increases at almost the same rate as in 1974, prices at the wholesale and industrial level increased at a sharply lower rate than the very high rate of increase experienced both in 1973 and 1974. This lower rate of increase had a beneficial effect in dealing with inflationary problems—financing of inventory, inflating product costs and price changes. At the same time, cost levels, in both labour and service areas, continued to escalate, placing increased pressure on investment return.

—Reflecting a degree of uncertainty relating to future price trends, inventory liquidation was a factor in the market in 1975, a sharp contrast to the rapid accumulation in 1973 and 1974. A moderate rate of accumulation is anticipated in 1976.

—Capital investment by business is expected to show little growth in 1976; 1975 appears to have seen the end of three years of sustained capital expansion. Housing construction appears to be an area of strength in 1976.

Sales

Sales in 1975 were $62.9 million, an increase of 8.4% over sales of $58.0 million in 1974. A number of new market areas were developed successfully in 1975 and new product lines were introduced in several branches. The effect of this growth was offset in part by reduced sales levels resulting from the virtual shut-down of a number of our customers' operations, largely in the pulp and paper field. These arose as a result of labour negotiations and from the need to correct supply situations.

The growth and development of the new industrial supply branch in Toronto has been affected in part by general economic conditions and outlook and has not yet reached satisfactory levels of volume. Achievement of planned goals is receiving highest priority.

Under the supervision of the Toronto industrial supply branch a new subsidiary company Cochrane-Dunlop, Inc. has been incorporated in the United States to facilitate sales in world markets of U.S.-sourced products.

Sales in the Saskatoon area were buoyant in 1975 reflecting aggressive marketing activity and a growing economy. New product lines were added and a major extension to the warehouse, now in process of completion in Saskatoon, will permit further development and improved service efficiency in this market.

Retail division sales showed little change in 1975, reflecting the closing of the retail store in Thompson, Manitoba, and the demolition of the main downtown location in Sudbury. This store, in the premises of the pioneer wholesale outlet of the business, was uneconomic, and was demolished early in 1975 to be replaced by a relocated and enlarged outlet in a more satisfactory retail selling location in Sudbury. The existing downtown sporting goods store in Sudbury has been retained and is being renovated as a speciality shop.

Earnings

Consolidated net income for the year at $1.234 million increased by 3.26% over the net income of $1.195 million for 1974. Stated in terms of income per share, earnings per share in 1975 were $1.35 compared with a restated $1.38 per share in 1974. Because of the reorganization of share capital during 1975 earnings per share have been restated on the basis of the new share structure and are determined on a weighted average basis.

The influence of economic trends on our sales and costs has already been outlined in general terms.

If the current anti-inflation measures taken by the federal government are successful, or if the rate of inflation decreases, some relief from the need for financing increasing inventory values while at the same time paying income tax on inflation based inventory profits, may be obtained. In 1975, this trend continued, admittedly on a reduced level from the levels of 1973 and 1974, and as a result interest rates increased significantly in 1975 over 1974. Bank borrowing rates have increased in 1976 over 1975 levels so that a continuation of the growth of borrowing costs can be expected.

A reduction in the effective rate of income tax is reflected in improved 1975 results.

Fixed Assets

Major items in the total expenditure of $422,000 for capital assets are:—

a) Partial costs of a 14,000 square foot expansion of the warehouse in Saskatoon, Saskatchewan. This addition was closed in by the end of 1975 and is expected to be in operation shortly as a heavy goods handling facility. It will also provide an opportunity to increase the lines carried at this location.

b) Investments to support the continued expansion of the electronic order entry and microfische catalogue systems of the Toronto dealer supply branch.

c) Upgrading, modernizing and increasing the service capacity of the warehouse at Dryden, Ontario.

d) Cost of fixtures and equipment for further enlargement of a new retail store in Sudbury. This store was originally opened in 1974 and increased in size in 1975.

e) Expenditures for regular general upgrading and improvement of warehouse and support facilities.

Capital reorganization and dividends

At the annual meeting of shareholders in 1975 approval was given to a split of existing common shares of the company on a 6 for 1 basis, a split of existing Class "A" shares on a 4 for 1 basis and a conversion of Class "A" shares into common shares. These changes became effective through the issue of Articles of Amendment on June 11, 1975 and the authorized capital of the Corporation now consists of 1,500,000 common shares without par value of which 926,476 common shares are issued.

Quarterly dividends at the rate of 5¢ per share have been paid on the new common stock and, in addition, a special year end extra dividend of 17¢ per common share was declared by your directors in 1975 and paid early in 1976. All dividend payments on the new shares have been paid on a "tax deferred" basis under the provisions of the Canadian Income Tax Act and accordingly were free of Canadian income tax in the hands of shareholders. However, these dividend payments reduce the "adjusted cost base" of the shares and may attract capital gains tax on ultimate disposal of the shares.

Anti-Inflation Act

The Corporation has been subject to the Anti-Inflation Act, since October 14, 1975, with respect to controls on pricing, profit margins, employee compensation and dividends.

Control on prices is exercised under the overall gross profit method of price restraint, which is the control method applicable to distributors. Calculations made to date indicate that the Corporation is in full compliance with the regulations.

Dividend payments outlined previously are also within the guidelines prescribed under the Act. At the present time, however, control rules with respect to dividends have not been extended beyond October 13, 1976.

Prospects for 1976

While uncertainties within the Canadian economy make immediate prospects difficult to assess and the final impact of government Anti-Inflation controls on the economy are still undetermined, opportunities are present in selected areas to expand the Corporation's services.

A subsidiary company has been incorporated in Alberta to serve as a vehicle for possible establishment of a branch or other form of outlet in that Province, and other areas of development are expected to be identified.

In summary, while we are somewhat restrained about the immediate outlook, particularly in view of the uncertainties of government measures, we are optimistic about our ability to capitalize on our opportunities during the year.

On behalf of the Board
April 14, 1976

F. Cochrane
President

COCHRANE-DUNLOP LIMITED

and subsidiary companies

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 1975

	1975	*1974*
Sales	$62,882,800	*$58,025,132*
Costs and expenses, exclusive of the following items:	59,367,005	*54,631,952*
Depreciation	290,045	*248,791*
Remuneration of directors and senior officers	256,550	*236,200*
Interest on bank indebtedness	465,546	*383,188*
	60,379,146	*55,500,131*
Income before income taxes	2,503,654	*2,525,001*
Income taxes	1,270,000	*1,330,000*
Net income for the year	$ 1,233,654	*$ 1,195,001*
Net income per common share for the year (note 2)	$1.35	*$1.38*

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 1975

	1975	*1974*
Balance, beginning of year	$11,422,203	*$10,459,500*
Net income for the year	1,233,654	*1,195,001*
	12,655,857	*11,654,501*
Deduct:		
Dividends—common shares	332,227	*185,924*
—Class "A" shares	3,418	*13,674*
	335,645	*199,598*
Tax paid on undistributed income	58,650	*32,700*
	394,295	*232,298*
Balance, end of year	$12,261,562	*$11,422,203*

(See accompanying notes)

COCHRANE-DUNLOP LIMITED

and subsidiary companies

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 1975

ASSETS

	1975	*1974*
Current assets:		
Cash	$ 7,470	*$ 9,330*
Accounts receivable	7,879,889	*7,413,847*
Merchandise inventory	11,326,937	*10,899,296*
Prepaid expenses and other assets	648,715	*571,561*
	19,863,011	*18,894,034*
Fixed assets, at cost:		
Buildings and equipment	4,144,463	*4,051,083*
Furniture and fixtures	1,704,572	*1,585,558*
Automotive equipment	256,386	*168,689*
	6,105,421	*5,805,330*
Less accumulated depreciation	4,018,963	*3,852,034*
	2,086,458	*1,953,296*
Land	885,543	*887,189*
	2,972,001	*2,840,485*
	$22,835,012	*$21,734,519*

LIABILITIES AND SHAREHOLDERS' EQUITY

	1975	*1974*
Current liabilities:		
Bank indebtedness	$ 3,710,274	*$ 4,107,584*
Accounts payable and accrued charges	5,297,211	*4,628,286*
Income and other taxes payable	828,440	*953,517*
Dividends payable	203,825	*89,229*
	10,039,750	*9,778,616*
Shareholders' equity:		
Share capital (note 2)	533,700	*533,700*
Retained earnings	12,261,562	*11,422,203*
	12,795,262	*11,955,903*
	$22,835,012	*$21,734,519*

On behalf of the Board:

F. COCHRANE, *Director*

F. S. MARTIN, *Director*

(See accompanying notes)

COCHRANE-DUNLOP LIMITED
and subsidiary companies

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED DECEMBER 31, 1975

	1975	*1974*
Funds were obtained from:		
Net income for the year	$ 1,233,654	*$ 1,195,001*
Depreciation, an item not requiring a current outlay of funds	290,045	*248,791*
	1,523,699	*1,443,792*
Funds were applied to:		
Expenditures on fixed assets	421,561	*469,400*
Dividends	335,645	*199,598*
Tax paid on undistributed income	58,650	*32,700*
	815,856	*701,698*
Increase in working capital	707,843	*742,094*
Working capital, beginning of year	9,115,418	*8,373,324*
Working capital, end of year	$ 9,823,261	*$ 9,115,418*

(See accompanying notes)

AUDITORS' REPORT

To the Shareholders of
Cochrane-Dunlop Limited:

We have examined the consolidated balance sheet of Cochrane-Dunlop Limited and subsidiary companies as at December 31, 1975 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of Cochrane-Dunlop Limited and subsidiary companies as at December 31, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
March 31, 1976.

CLARKSON, GORDON & CO.
Chartered Accountants

COCHRANE-DUNLOP LIMITED

and subsidiary companies

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1975

1. Summary of significant accounting policies

(a) Basis of consolidation—
The consolidated financial statements include the accounts of the Corporation and all of its subsidiaries and include the earnings of the subsidiaries since acquisition.

(b) Inventories—
Inventories are valued at the lower of cost, determined on a first-in first-out basis, and net realizable value.

(c) Depreciation—
The Corporation and its subsidiaries provide for depreciation on fixed assets on the reducing balance method. The rates of depreciation are:

	Rate
Buildings and equipment	5% and 10%
Furniture and fixtures	20%
Automotive equipment	30%

2. Share Capital

During the year the share capital of the Corporation was reorganized by:—

(a) Decreasing the authorized capital by cancelling all of the unissued non-cumulative redeemable preference shares with a par value of 20¢ each;

(b) Subdividing the existing 17,092 Class "A" shares without nominal or par value into 68,368 Class "A" shares without nominal or par value on the basis of 4 Class "A" shares without nominal or par value for each existing Class "A" share;

(c) Subdividing the existing 143,018 common shares without nominal or par value into 858,108 common shares without nominal or par value on the basis of 6 common shares without nominal or par value for each existing common share;

(d) Deleting and repealing the share conditions attaching to the Class "A" shares and to the common shares and reclassifying the said 68,368 Class "A" shares as 68,368 common shares without nominal or par value on a parity with the 858,108 common shares without nominal or par value of the Corporation;

(e) Increasing the authorized capital of the Corporation by creating an additional 573,524 common shares without par value ranking on a parity with the 926,476 common shares without par value resulting from the subdivision and the reclassification referred to above.

Accordingly, at December 31, 1975 the authorized capital of the Corporation consists of 1,500,000 common shares without par value of which 926,476 common shares are issued as fully paid and non-assessable.

As a result of the foregoing share reorganization, 1974 net income per common share figures have been restated. Net income per common share figures have been calculated on a weighted average basis.

3. Change of name

During the year the name of the Corporation was changed from Cochrane-Dunlop Hardware, Limited to Cochrane-Dunlop Limited.

4. Lease commitments

The Corporation and its subsidiaries are committed to annual rental payments of approximately $191,000 on leases expiring in the years 1976 to 1992.

5. Anti-Inflation legislation

The Corporation is subject to mandatory compliance with the controls on prices, profit margins, employee compensation and shareholder dividends imposed by the Anti-Inflation Act which became effective from October 14, 1975. The Corporation has developed the required base period information and made compliance period calculations for 1975. These calculations indicate that the Corporation is in full compliance with the Anti-Inflation Regulations.

Under the Act, dividends to the Corporation's common shareholders during the year ended October 13, 1976 may not exceed 32¢ per share.

STATISTICAL SUMMARY

(figures in thousands except ratios, shares, and amounts per share)

FOR THE YEAR	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966
Sales	$62,883	$58,025	$45,115	$39,294	$41,815	$41,516	$35,751	$35,662	$33,112	$29,379
Depreciation	290	249	179	188	202	202	215	218	182	175
Interest on bank indebtedness	466	383	132	65	88	119	141	81	35	49
Income taxes	1,270	1,330	820	640	630	550	385	570	487	336
Net income	1,234	1,195	793	675	613(b)	489	360(b)	519	457	333
% to sales	2.0%	2.1%	1.8%	1.7%	1.5%(b)	1.2%	1.0%(b)	1.4%	1.4%	1.1%
per common share (note a)	1.35	1.38	.91	.77	.69(b)	.55	.40(b)	.59	.52	.37
Dividends—total	336	200	128	128	128	128	128	128	128	128
Per share (note a)										
—Class A	.05	.20	.20	.20	.20	.20	.20	.20	.20	.20
—Common	.36	.22	.13	.13	.13	.13	.13	.13	.13	.13
Expenditures on fixed assets	422	469	564	88	202	89	151	492	357	83
Increase in working capital	708	742	260	626	503	473	365	117	154	258
AT YEAR END										
Working capital	9,823	9,115	8,373	8,114	7,488	6,985	6,512	6,147	6,031	5,877
Shareholders' equity	12,795	11,956	10,993	10,348	9,822	9,319	8,958	8,657	8,267	7,404
Shares outstanding (note c)										
—Class A	—	17,092	17,092	17,092	17,092	17,092	17,092	17,092	17,092	17,092
—Common	926,476	143,018	143,018	143,018	143,018	143,018	143,018	143,018	143,018	143,018

Notes:

a Based on average number of shares outstanding and adjusted for capital stock reorganization and split in 1975

b Before adding Extraordinary Items of: 1971—$25,000 or $0.03 per common share
1969—$68,904 or $0.08 per common share

c Capital stock was reorganized effective on June 11, 1975. (See note 2 to the financial statements)

CORPORATE DIRECTORY

COCHRANE-DUNLOP LIMITED

HEAD OFFICE:
160 BLOOR STREET EAST,
TORONTO, ONTARIO M4W 1C4.

Directors

E. A. Bird, Toronto, Ontario
A. Gordon Cardy, Toronto, Ontario
G. R. Chater, Toronto, Ontario
F. Cochrane, Toronto, Ontario
D. Higgins, Toronto, Ontario
F. S. Martin, Ottawa, Ontario
F. F. Todd, Oakville, Ontario

Wholly-Owned Subsidiary Companies

C-D Hardware Sales Limited
Cochrane-Dunlop Hardware—Quebec, Inc.
Cochrane-Dunlop Hardware Manitoba Limited
Cochrane-Dunlop Hardware Saskatchewan Limited
Dominion Hardware Stores Limited
Cochrane-Dunlop Alberta Limited
Cochrane-Dunlop, Inc. (Buffalo, N.Y., U.S.A.)

Wholesale Branches

ONTARIO
Dryden—*264 Government Street, Dryden.*
Elliot Lake—*2 Roodis Road, Elliot Lake.*
Little Current—*Vankoughnet Street, Little Current.*
North Bay—*881 Jet Avenue, North Bay.*
Sault Ste. Marie—*550 Second Line East, Sault Ste. Marie.*
Sudbury—*122 Douglas Street W., Sudbury*
Thunder Bay—*425 Eleventh Avenue, Thunder Bay.*
Toronto (Dealer Supply)—*1385 Bloor Street West, Toronto.*
Toronto (Industrial Supply)—*50 Woodbine Downs Boulevard, Etobicoke*
Wawa—*Algoma Ore Property, Wawa.*

QUEBEC
Val d'Or—*1337 Harricana Street, Val d'Or.*

MANITOBA
Thompson—*Station Road, Thompson.*

SASKATCHEWAN
Esterhazy—*4 East Drive, Esterhazy.*
Saskatoon—*2525 Wentz Avenue, Saskatoon.*

Retail Branches

ONTARIO
Copper Cliff
Guelph
Hamilton
Lively
North Bay
Oakville
Sault Ste. Marie
Sudbury (2)

Officers

F. Cochrane, *President*
D. Higgins, *Executive Vice-President and General Manager*
R. L. T. Baillie, *Vice-President—Finance*

Counsel

Shibley, Righton & McCutcheon

Auditors

Clarkson, Gordon & Co.

Transfer Agent and Registrar

The Canada Trust Company—Toronto